



**Director of
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SITUATION REPORT

IRAN

Several elected members of the National Assembly have indicated that the legislature probably will not move to release the hostages without further US concessions.

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In press interviews, the new legislators take a hard line on the hostages--threatening to try the "spies" among them and demanding the return of the Shah. Those from the cleric-dominated Islamic Republic Party take the toughest position.

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A handful of moderates, including former Prime Minister Bazargan, take a more conciliatory approach and criticize the seizure of the US Embassy. The moderates, however, are not likely to play a dominant role in the legislature. When the National Assembly does convene, it will almost certainly look to Ayatollah Khomeini for any decision on the hostages.

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A spokesman for the militants said yesterday that they would kill the hostages if Iraq invades Iran. This is consistent with Tehran's propaganda line that Iraq is acting as an agent of the US.

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China's Attitude on Sanctions

China has not yet commented publicly on the US sanctions against Iran. The Chinese are keeping a low profile, publicly expressing only the general hope that the US and other nations will pursue "sensible" policies toward Iran. [REDACTED]

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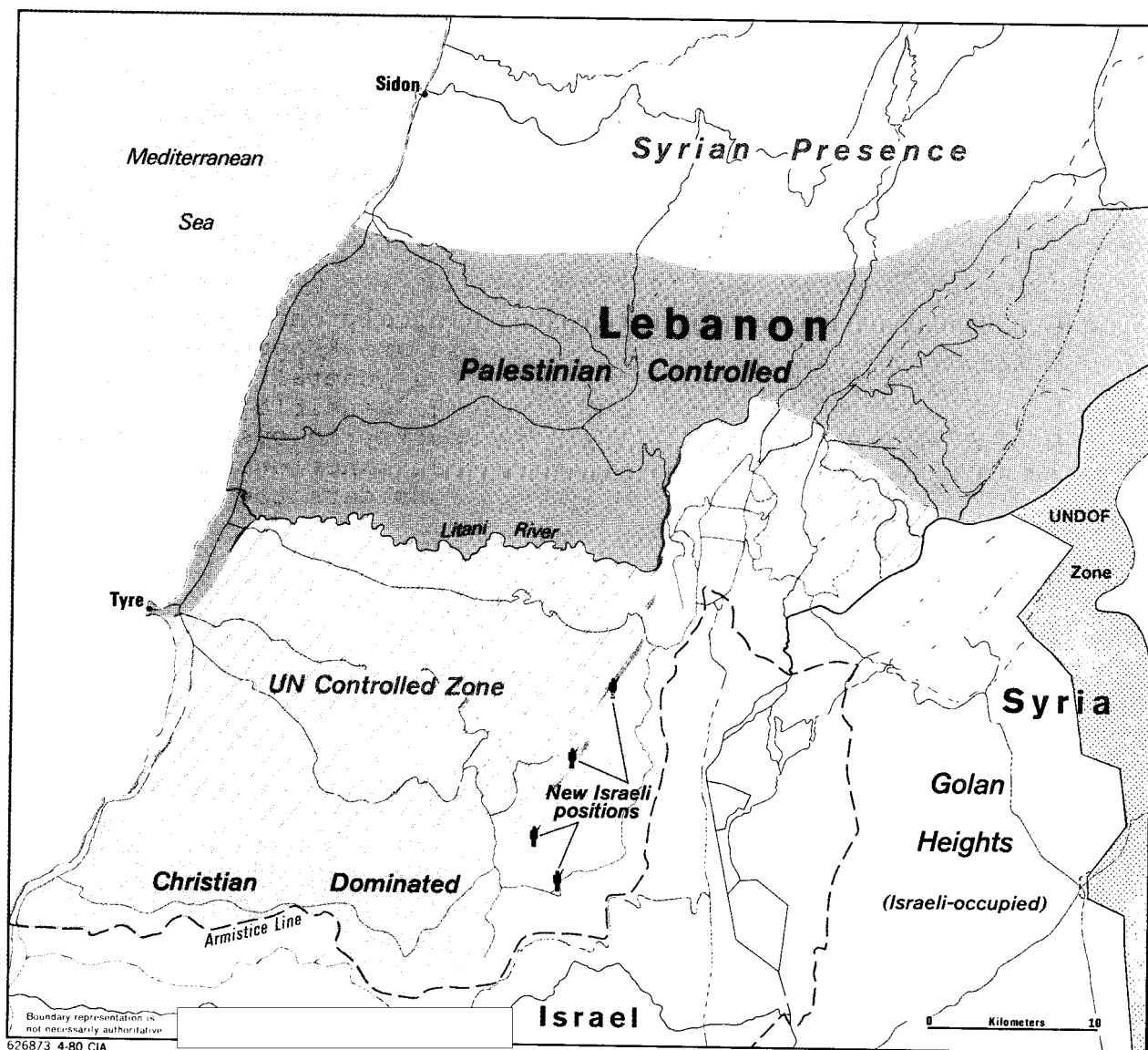
Beijing privately still believes that sanctions may play into Moscow's hands and therefore considers them "regrettable." [REDACTED]

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BRIEFS AND COMMENTS

ISRAEL-LEBANON: Israelis Dig In

Israeli Defense Minister Weizman

told US officials in Tel Aviv yesterday that Israeli troops would remain in southern Lebanon at least for the next few days.

The Israeli forces may be there even longer. They reportedly have begun digging in around the four positions they established on Wednesday and bulldozing new roads in the area.

If the Israelis do withdraw, they could easily return to their new strongpoints. The positions could also be turned over to Israel's Christian allies, thus increasing their area of responsibility at the expense of the UN.

the Israelis may be preparing to begin new shelling in response to any further guerrilla acts or in support of retaliatory actions for the terrorist raid on Monday.

The UN and the countries contributing troops to the UN force in southern Lebanon are almost certain to press for a Security Council meeting if Israeli forces are not withdrawn soon.

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NATO: Military Modernization

The NATO allies probably will not agree on Monday at the meeting of the Defense Planning Committee to significant measures to help offset a possible US shift of forces from Europe to Southwest Asia. [redacted]

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The US hopes to persuade the allies to accelerate fulfillment of military modernization pledges made under the Alliance's Long-Term Defense Plan. The crisis over Afghanistan, however, has not increased the allies' willingness to implement measures in the long-term plan or--with the exception of West Germany and the UK--to commit themselves firmly to a 3-percent real annual increase in defense spending. Even if they became convinced that the US anticipates a significant shift of NATO-earmarked forces to Southwest Asia in an emergency, the allies will find it both politically and economically difficult to accept more responsibility for their own defense. [redacted]

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West Germany is increasing its defense budget by a billion marks, but these funds are already tied to specific programs. Bonn probably will be unwilling to add new programs in the short term without modifying existing ones. The UK also is spending more for defense, but part of these funds are intended for British forces east of Suez. [redacted]

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Italy and smaller allies all plead poverty and note strong domestic opposition to increased military spending. As NATO continues this year's review of national force goals, the Dutch are unlikely to meet the 3-percent goal, and the Italians, Belgians, and Danes seem unwilling to accept specific challenges designed to induce governments to strengthen specific military programs. [redacted]

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EGYPT: Religious Strife

Tension is increasing between Muslim extremists and Egypt's Coptic Christian community of some 4 million. [REDACTED]

On Tuesday a dispute between a small number of Muslims and Copts reportedly led to civil disorders in Minya, a city in central Egypt with a history of communal difficulties. In late March, Coptic and Muslim students fought in Alexandria, and there are reports that incidents have occurred in other cities. [REDACTED]

Coptic leaders have become alarmed at the growth in fundamentalist Islamic activity in Egypt. The Egyptian Coptic Pope refused to participate in this year's Easter celebrations, partly to pressure the government to rein in Islamic student activists. Student protests against the Soviet invasion of Afghanistan and the arrival of the deposed Shah have taken on anti-Coptic overtones. [REDACTED]
[REDACTED]

Most of the initiative in the sectarian strife comes from radical Muslim groups. Some Egyptian officials believe that at least one incident was designed to cause domestic unrest and weaken President Sadat. [REDACTED]

The government has played down recent incidents and tried to discredit rumors of even more serious events. Sadat previously has demonstrated his resolve to maintain intercommunal harmony, and he is likely to involve himself personally in efforts to reduce the current tension. [REDACTED]

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NICARAGUA: Debt Rescheduling

Nicaragua's confrontation with its foreign creditors over re-payment terms on some \$500 million of debt could have far-reaching consequences for private bank lending to developing countries.

Managua is in effect asking creditors to repudiate 60 percent of the debt and to reschedule the remainder over about 25 years at 7 percent interest. With a tight money market, bank representatives have demanded rescheduling of the entire debt at high Eurodollar interest rates. This formula would keep Managua's repayments in arrears and might lead to default next year.

Should creditors go far to accommodate Managua, they would probably also protect themselves in the future by reducing loans to less creditworthy developing countries. On the other hand, if the negotiations set to resume on 23 April do not lead to agreement, some bankers may well take legal action against Nicaraguan assets. Having taken such a step against Nicaragua, creditors would find it easier to take tough measures against other developing countries seeking debt relief, including Jamaica, Zaire, Sudan, and Pakistan.

Private borrowing has been a key tool of the developing countries for coping with a soaring \$53-billion current account deficit, stagnant real GNP growth, and a high rate of inflation. Tighter credit would compound other problems troubling the developing countries including oil price increases, slack demand for their exports, and less-than-expected OPEC credits.

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EASTERN EUROPE - MOZAMBIQUE: Military Aid

Mozambique is continuing to receive considerable military aid from Hungary, East Germany, and Bulgaria despite its recent efforts to open the way for Western economic assistance.

The East Europeans are providing equipment and training to support Mozambique's effort to create a conventional military force. Much of the equipment is obsolete and is being phased out of East European inventories.

Most of the aid is being supplied free or on generous terms, but the East Europeans also are competing for sales of military hardware, either for hard currency or in barter for raw materials. In an effort to get the best price, Mozambique is encouraging the competition, which probably will intensify as the Mozambicans seek more advanced weaponry.

Hungary is Mozambique's second most important source of military hardware after the USSR.

Since 1976, East Germany has supplied tanks, artillery, and trucks to Mozambique and has agreed to train Mozambican pilots and aircraft maintenance personnel.

Since 1977, Bulgaria has supplied Mozambique with air defense weaponry, artillery, and ammunition.

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CUBA-PERU: Embassy Refugees

An early solution to the problem posed by the Cuban refugees in the Peruvian Embassy in Havana is unlikely. Cuba has not yet responded to Peru's request that the Intergovernmental Committee for European Migration or another international organization be allowed to take charge of the refugees' departure. Peru, which has no facilities for a massive airlift, had counted on Cuba's granting permission for the Committee to provide transportation. Peru's Andean Pact neighbors have not yet made definite commitments to accept refugees or to assist in getting them out. [REDACTED]

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One of Havana's motives in allowing the refugee influx was to embarrass Lima, which previously had granted asylum to Cubans who forced their way into the Peruvian Embassy. The Castro regime may now insist that Peru alone take charge of the refugees. [REDACTED]
[REDACTED]

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